

# AUDITING PROCEDURES REPORT

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Local Government Type: <input checked="" type="checkbox"/> City <input type="checkbox"/> Township <input type="checkbox"/> Village <input type="checkbox"/> Other		Local Government Name: <u>City of Gibraltar, Michigan</u>	County Wayne
Audit Date June 30, 2004	Opinion Date September 17, 2004	Date Accountant Report Submitted To State: November 23, 2004	

We have audited the financial statements of this local unit of government and rendered an opinion on financial statements prepared in accordance with the Statements of the Governmental Accounting Standards Board (GASB) and the *Uniform Reporting Format for Financial Statements for Counties and Local Units of Government in Michigan* by the Michigan Department of Treasury.

We affirm that:

1. We have complied with the *Bulletin for the Audits of Local Units of Government in Michigan* as revised.
2. We are certified public accountants registered to practice in Michigan.

We further affirm the following. "Yes" responses have been disclosed in the financial statements, including the notes, or in the report of comments and recommendations.

You must check the applicable box for each item below:

- |   |   |
|---|---|
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 1. Certain component units/funds/agencies of the local unit are excluded from the financial statements.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 2. There are accumulated deficits in one or more of this unit's unreserved fund balances/retained earnings (P.A. 275 of 1980).  |
| <input checked="" type="checkbox"/> yes <input type="checkbox"/> no | 3. There are instances of non-compliance with the Uniform Accounting and Budgeting Act (P.A. 2 of 1968, as amended).  |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 4. The local unit has violated the conditions of either an order issued under the Municipal Finance Act or its requirements, or an order issued under the Emergency Municipal Loan Act.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 5. The local unit holds deposits/investments which do not comply with statutory requirements. (P.A. 20 of 1943, as amended [MCL 129.91] or P.A. 55 of 1982, as amended [MCL 38.1132])   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 6. The local unit has been delinquent in distributing tax revenues that were collected for another taxing unit.   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 7. The local unit has violated the Constitutional requirement (Article 9, Section 24) to fund current year earned pension benefits (normal costs) in the current year. If the plan is more than 100% funded and the overfunding credits are more than the normal cost requirement, no contributions are due (paid during the year). |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 8. The local unit uses credit cards and has not adopted an applicable policy as required by P.A. 266 of 1995 (MCL 129.241).   |
| <input type="checkbox"/> yes <input checked="" type="checkbox"/> no | 9. The local unit has not adopted an investment policy as required by P.A. 196 of 1997 (MCL 129.95).  |

We have enclosed the following:	Enclosed	To Be Forwarded	Not Required
The letter of comments and recommendations.	<input checked="" type="checkbox"/>	<input type="checkbox"/>	<input type="checkbox"/>
Reports on individual federal assistance programs (program audits).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>
Single Audit Reports (ASL GU).	<input type="checkbox"/>	<input type="checkbox"/>	<input checked="" type="checkbox"/>

Certified Public Accountant (Firm Name): <b>PLANTE &amp; MORAN, PLLC</b>			
Street Address 26400 Northwestern Hwy.	City Southfield	State MI	ZIP 48034
Accountant Signature  <i>Plante &amp; Moran, PLLC</i>			

# **City of Gibraltar, Michigan**

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## **Financial Report with Supplemental Information June 30, 2004**

# City of Gibraltar, Michigan

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## Independent Auditor's Report

To the City Council  
City of Gibraltar, Michigan

We have audited the accompanying financial statements of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gibraltar, Michigan as of and for the year ended June 30, 2004, which collectively comprise the City's basic financial statements as listed in the table of contents. These financial statements are the responsibility of the City of Gibraltar, Michigan's management. Our responsibility is to express opinions on these financial statements based on our audit.

We conducted our audit in accordance with auditing standards generally accepted in the United States of America. Those standards require that we plan and perform the audit to obtain reasonable assurance about whether the financial statements are free of material misstatement. An audit includes examining, on a test basis, evidence supporting the amounts and disclosures in the financial statements. An audit also includes assessing the accounting principles used and significant estimates made by management, as well as evaluating the overall financial statement presentation. We believe that our audit provides a reasonable basis for our opinions.

In our opinion, the financial statements referred to above present fairly, in all material respects, the respective financial position of the governmental activities, the business-type activities, the discretely presented component unit, each major fund, and the aggregate remaining fund information of the City of Gibraltar, Michigan as of June 30, 2004 and the respective changes in financial position and cash flows, where applicable, thereof for the year then ended, in conformity with accounting principles generally accepted in the United States of America.

The management's discussion and analysis retirement system schedules of funding progress and employer contributions and budgetary comparison schedules, as identified in the table of contents are not a required part of the basic financial statements but are supplemental information required by the Governmental Accounting Standards Board. We have applied certain limited procedures, which consisted principally of inquiries of management, regarding the methods of measurement and presentation of the required supplemental information. However, we did not audit the information and express no opinion on it.

Our audit was conducted for the purpose of forming opinions on the financial statements that collectively comprise the City of Gibraltar's basic financial statements. The accompanying other supplemental information, as identified in the table of contents, is not a required part of the basic financial statements. The other supplemental information has been subjected to the auditing procedures applied in the audit of the basic financial statements and, in our opinion, is fairly stated in all material respects in relation to the basic financial statements taken as a whole.

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To the City Council  
City of Gibraltar, Michigan

As described in Note 13, the City has implemented a new financial reporting model, as required by the provisions of GASB Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*, and related statements, as of July 1, 2003.

*Plante & Moran, PLLC*

September 17, 2004

# City of Gibraltar, Michigan

## Management's Discussion and Analysis

The following discussion and analysis of the City of Gibraltar's (the "City") financial performance provides an overview of the City's financial activities for the fiscal year ended June 30, 2004. Please read it in conjunction with the City's financial statements.

### Financial Highlights

As discussed in further detail in this discussion and analysis, the following represents the most significant financial highlights for the year ended June 30, 2004:

- State-shared revenue, our second largest revenue source, was reduced by the State of Michigan by approximately \$36,000 this year. This represents a 7.6 percent decrease from the prior year.
- Property taxes are the City's single largest source of revenue. The City's taxable value for fiscal year 2003/2004 was approximately \$131,089,000, which represents a decrease of approximately \$4,497,000, or 3.3 percent. This decrease was due to the exclusion of a major taxpayer from the rolls due to its current financial situation and a pending case before the State Tax Commission.
- The City began construction of a new municipal complex, a project that is funded through both general obligation and DDA bonding. The City also began reconstruction of Adams Street, which will be funded by Act 51 gas and weight tax monies.

The City closely monitors discretionary spending by performing periodic budget adjustments. As a result, the fund balance of the General Fund increased by approximately \$45,000 despite certain revenue decreases.

### Using this Annual Report

This annual report consists of a series of financial statements. The statement of net assets and the statement of activities provide information about the activities of the City as a whole and present a longer-term view of the City's finances. This longer-term view uses the accrual basis of accounting so that it can measure the cost of providing services during the current year, and whether the taxpayers have funded the full cost of providing government services.

The fund financial statements present a short-term view; they tell us how the taxpayers' resources were spent during the year, as well as how much is available for future spending. Fund financial statements also report the City operations in more detail than the government-wide financial statements by providing information about the City's most significant funds. The fiduciary fund statements provide financial information about activities for which the City acts solely as a trustee or agent for the benefit of those outside of the government.

# City of Gibraltar, Michigan

## Management's Discussion and Analysis (Continued)

### The City as a Whole

The following table shows, in a condensed format, the net assets as of June 30, 2004 (in thousands of dollars):

TABLE I

	Governmental Activities	Business-type Activities	Total
<b>Assets</b>			
Current assets	\$ 2,161	\$ 593	\$ 2,754
Noncurrent assets	<u>8,028</u>	<u>9,151</u>	<u>17,179</u>
Total assets	10,189	9,744	19,933
<b>Liabilities</b>			
Current liabilities	1,027	287	1,314
Long-term liabilities	<u>5,344</u>	<u>1,237</u>	<u>6,581</u>
Total liabilities	<u>6,371</u>	<u>1,524</u>	<u>7,895</u>
<b>Net Assets</b>			
Invested in capital assets -			
Net of related debt	2,805	7,653	10,458
Restricted	135	130	265
Unrestricted	<u>878</u>	<u>437</u>	<u>1,315</u>
Total net assets	<u><b>\$ 3,818</b></u>	<u><b>\$ 8,220</b></u>	<u><b>\$ 12,038</b></u>

The City of Gibraltar, Michigan has combined net assets of \$12 million. Business-type activities comprise \$8.2 million of the total net assets. In the current year, within the governmental activities, noncurrent assets, in the form of capital assets construction in progress, increased \$3 million due to the municipal complex project as well as a significant road reconstruction project.

# City of Gibraltar, Michigan

## Management's Discussion and Analysis (Continued)

The following table shows the changes of the net assets during the current year (in thousands of dollars):

	Governmental Activities	Business-type Activities	Total
<b>Net Assets - Beginning of year</b>	\$ 3,552	\$ 8,333	\$ 11,885
<b>Revenue</b>			
Program revenue:			
Charges for services	788	827	1,615
Operating grants and contributions	528	-	528
Capital grants and contributions	418	136	554
General revenue:			
Property taxes	2,179	-	2,179
State-shared revenue	437	-	437
Unrestricted investment earnings	49	6	55
Transfers and other revenue	-	20	20
Total revenue	4,399	989	5,388
<b>Program Expenses</b>			
General government	1,166	-	1,166
Public safety	1,451	-	1,451
Public works	1,130	-	1,130
Recreation and culture	83	-	83
Interest on long-term debt	283	-	283
Water and sewer	-	1,102	1,102
<b>General Expense - Transfers</b>	20	-	20
Total expenses	4,133	1,102	5,235
<b>Change in Net Assets</b>	266	(113)	153
<b>Net Assets - End of year</b>	<u>\$ 3,818</u>	<u>\$ 8,220</u>	<u>\$ 12,038</u>

In the current year, property taxes increased by approximately \$130,000 related to a voted levy to fund the general obligation debt service related to the municipal complex project. In addition, federal grant activity increased approximately \$100,000 over the prior year. In future reports, comparative data will be provided for the statement of activities. Comparative data is not required during the first year of reporting under GASB No. 34, and therefore, a comparative statement of activities is not part of the management's discussion and analysis.

# **City of Gibraltar, Michigan**

## **Management's Discussion and Analysis (Continued)**

### **Governmental Activities**

The City's total governmental revenues increased by approximately \$150,000, despite decreases in state-shared revenue. The City's ability to maintain steady overall revenue was due primarily to the implementation of a voted millage to fund the municipal complex project.

Expenses remained fairly consistent compared to the prior year. However, increases occurred in health care costs, property insurance rates, and retirement system contributions. To offset this, the City closely monitored its spending in all other areas.

### **Business-type Activities**

The City's business-type activities consist of the Water and Sewer Fund. We provide water to residents from the Detroit Water System. We provide sewage treatment through the South Huron Valley Utility Authority. The fiscal year 2004 could be characterized as a wetter than average year, which resulted in a relatively low usage in the water system. This contributed to an operating loss in the current year.

### **The City's Funds**

The analysis of the City's major funds begins on page 11, following the government-wide financial statements. The fund financial statements provide detailed information about the most significant funds, not the City as a whole. The City Council creates funds to help manage money for specific purposes as well as to show accountability for certain activities. The City's major funds for 2004 include the General Fund and the Capital Projects Fund.

The General Fund pays for most of the City's governmental services. The most significant relates to the police department, which incurred expenses of approximately \$1,200,000 in the current year. The budget in the General Fund is basically a "maintenance" budget, which means it increases modestly from year to year.

### **General Fund Budgetary Highlights**

Over the course of the year, the City amended the budget to take into account events during the year. The most significant change was to reduce state-shared revenue payments. City departments overall stayed within 1 percent of budget, resulting in total expenditures of \$27,401 below budget. This allowed the General Fund's fund balance to increase from approximately \$337,000 a year ago to approximately \$382,000 at June 30, 2004.

### **Capital Asset and Debt Administration**

The City continues to collect and dedicate the millage revenues approved by the voters in November 1998 and 2002 for bond payments related to improvements to streets and the construction of the new municipal complex, respectively.

# **City of Gibraltar, Michigan**

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## **Management's Discussion and Analysis (Continued)**

At the end of 2004, the City had approximately \$17,000,000 (net of depreciation) invested in a broad range of capital assets, including buildings, police and fire equipment, roads, and water and sewer lines.

### **Economic Factors and Next Year's Budgets and Rates**

The City's budget for next year calls for less than a 2 percent increase related to property tax rates. Because of the impact of Proposal A, the City needs to continue to watch its budget very closely. The statewide Tax Reform Act limits growth in taxable value on any individual property to the lesser of inflation or 5 percent. Because some properties increase in value by less than inflation, the mathematical result of this is that the total taxable value for the City will grow by less than inflation, before considering new property additions. In addition, a major taxpayer's valuation is currently the subject of a case going before the State Tax Commission.

We anticipate that the water and sewer rates will have to increase somewhat in 2005 in order to pass along increases by providers. We are in the process of evaluating the amount of increase that will be needed and will likely have a public hearing in 2005 to discuss the need for such an increase.

### **Contacting the City's Management**

This financial report is intended to provide our citizens, taxpayers, customers, and investors with a general overview of the City's finances and to show the City's accountability for the money it receives. If you have questions about this report or need additional information, we invite you to contact the administration offices at City Hall.

# City of Gibraltar, Michigan

## Statement of Net Assets June 30, 2004

	Primary Government			Component Unit
	Governmental Activities	Business-type Activities	Total	
<b>Assets</b>				
Cash and investments (Note 2)	\$ 1,712,144	\$ 331,299	\$ 2,043,443	\$ 818,740
Receivables - Net (Note 3)	397,355	236,957	634,312	7,204
Internal balances	(25,083)	25,083	-	-
Due from component unit	29,000	-	29,000	-
Prepaid costs and other assets	47,703	-	47,703	-
Restricted assets (Note 7)	-	130,244	130,244	2,389,086
Capital assets not being depreciated (Note 4)	3,231,311	148,070	3,379,381	834,731
Capital assets being depreciated (Note 4)	4,796,428	8,872,216	13,668,644	630,715
Total assets	10,188,858	9,743,869	19,932,727	4,680,476
<b>Liabilities</b>				
Accounts payable	286,832	156,173	443,005	568,389
Accrued and other liabilities	436,106	-	436,106	12,737
Due to primary government	-	-	-	29,000
Compensated absences:				
Due within one year	29,750	-	29,750	-
Due in more than one year	352,047	-	352,047	-
Noncurrent liabilities (Note 6):				
Due within one year	274,212	130,469	404,681	181,800
Due in more than one year	4,991,704	1,236,592	6,228,296	3,385,000
Total liabilities	6,370,651	1,523,234	7,893,885	4,176,926
<b>Net Assets</b>				
Invested in capital assets - Net of related debt	2,805,423	7,653,225	10,458,648	287,732
Restricted:				
Streets and highways	91,074	-	91,074	-
Debt service	35,136	-	35,136	-
Drug forfeiture	3,399	-	3,399	-
Tax levy and other	4,800	130,244	135,044	-
Unrestricted	878,375	437,166	1,315,541	215,818
Total net assets	\$ 3,818,207	\$ 8,220,635	\$ 12,038,842	\$ 503,550

# City of Gibraltar, Michigan

		Program Revenues		
		Charges for	Operating	Capital Grants
	Expenses	Services	Grants and Contributions	and Contributions
<b>Functions/Programs</b>				
Primary government:				
Governmental activities:				
General government	\$ 1,165,823	\$ 725,532	\$ 200,660	\$ -
Public safety	1,451,176	41,143	25,867	-
Public works	1,130,061	-	301,304	418,398
Recreation and culture	83,066	21,752	-	-
Interest on long-term debt	283,432	-	-	-
Total governmental activities	4,113,558	788,427	527,831	418,398
Business-type activities - Water and sewer	1,101,762	827,439	-	136,025
Total primary government	<u><b>\$ 5,215,320</b></u>	<u><b>\$ 1,615,866</b></u>	<u><b>\$ 527,831</b></u>	<u><b>\$ 554,423</b></u>
Component unit - Downtown Development Authority				
	<u><b>\$ 657,794</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>	<u><b>\$ -</b></u>
General revenues:				
Property taxes				
State-shared revenues				
Unrestricted investment earnings				
Miscellaneous revenues				
Transfers				
Total general revenues and transfers				
<b>Change in Net Assets</b>				
<b>Net Assets - Beginning of year</b>				
<b>Net Assets - End of year</b>				

**Statement of Activities**  
**Year Ended June 30, 2004**

Net (Expense) Revenue and Changes in Net Assets			
Primary Government			Component Unit
Governmental Activities	Business-type Activities	Total	
\$ (239,631)	\$ -	\$ (239,631)	\$ -
(1,384,166)	-	(1,384,166)	-
(410,359)	-	(410,359)	-
(61,314)	-	(61,314)	-
(283,432)	-	(283,432)	-
(2,378,902)	-	(2,378,902)	-
-	(138,298)	(138,298)	-
(2,378,902)	(138,298)	(2,517,200)	-
-	-	-	(657,794)
2,178,858	-	2,178,858	388,054
436,586	-	436,586	-
49,004	5,892	54,896	50,743
-	-	-	6,900
(19,589)	19,589	-	-
2,644,859	25,481	2,670,340	445,697
265,957	(112,817)	153,140	(212,097)
3,552,250	8,333,452	11,885,702	715,647
<b>\$ 3,818,207</b>	<b>\$ 8,220,635</b>	<b>\$ 12,038,842</b>	<b>\$ 503,550</b>

# City of Gibraltar, Michigan

## Governmental Funds Balance Sheet June 30, 2004

	Special Revenue			Capital	Other	Total
	General Fund	Major Streets Fund	Land Revolving Fund	Projects - City Hall Construction	Nonmajor Governmental Funds	Governmental Funds
<b>Assets</b>						
Cash and investments	\$ 749,675	\$ 182,290	\$ 547,861	\$ 5,724	\$ 226,594	\$ 1,712,144
Property taxes receivable	100,750	-	-	-	5,367	106,117
Accrued interest	685	125	7,119	-	301	8,230
Other receivables	47,259	-	-	-	35,816	83,075
Due from other governmental units	77,625	29,916	-	-	11,271	118,812
Due from component unit	-	-	-	29,000	-	29,000
Due from other funds	11,080	-	140,340	11,402	-	162,822
Advance from other funds	-	-	113,936	-	-	113,936
Prepaid expenditures	47,703	-	-	-	-	47,703
Total assets	<u>\$ 1,034,777</u>	<u>\$ 212,331</u>	<u>\$ 809,256</u>	<u>\$ 46,126</u>	<u>\$ 279,349</u>	<u>\$ 2,381,839</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 106,157	\$ 60,861	\$ 113,937	\$ 2,525	\$ 1,313	\$ 284,793
Accrued and other liabilities	32,153	-	-	-	-	32,153
Due to other governmental units	2,039	-	-	-	-	2,039
Due to other funds	165,423	1,067	-	-	21,415	187,905
Advance to other funds	-	113,936	-	-	-	113,936
Deposits	346,633	-	-	-	-	346,633
Total liabilities	652,405	175,864	113,937	2,525	22,728	967,459
<b>Fund Balances</b>						
Reserved for:						
Capital projects	-	-	-	43,601	-	43,601
Tax levy	4,800	-	-	-	-	4,800
Prepaid expenditures	47,703	-	-	-	-	47,703
Unreserved, reported in:						
General Fund	329,869	-	-	-	-	329,869
Special Revenue Funds	-	36,467	695,319	-	221,485	953,271
Debt Service Funds	-	-	-	-	35,136	35,136
Total fund balances	<u>382,372</u>	<u>36,467</u>	<u>695,319</u>	<u>43,601</u>	<u>256,621</u>	<u>1,414,380</u>
Total liabilities and fund balances	<u>\$ 1,034,777</u>	<u>\$ 212,331</u>	<u>\$ 809,256</u>	<u>\$ 46,126</u>	<u>\$ 279,349</u>	<u>\$ 2,381,839</u>
<b>Fund Balance of Governmental Activities</b>						\$ 1,414,380
Amounts reported for governmental activities in the statement of net assets are different because:						
Capital assets used in governmental activities are not financial resources and are not reported in the funds						8,027,739
State-shared revenue related to the current period but not received until the following period is not reported in the funds						81,121
Compensated absences are not included as a liability of the funds						(381,797)
Accrued interest on long-term liabilities is not recorded in the funds						(57,320)
Long-term liabilities are not due and payable in the current period and are not reported in the funds						(5,265,916)
<b>Net Assets of Governmental Activities</b>						<u>\$ 3,818,207</u>

# City of Gibraltar, Michigan

## Governmental Funds Statement of Revenue, Expenditures, and Changes in Fund Balances Year Ended June 30, 2004

		Special Revenue				
			Land	Capital	Other	Total
	General Fund	Major Streets	Revolving	Projects - City	Nonmajor	Total
		Fund	Fund	Hall	Governmental	Governmental
				Construction	Funds	Funds
<b>Revenue</b>						
Property taxes	\$ 1,914,519	\$ -	\$ -	\$ -	\$ 264,339	\$ 2,178,858
Licenses and permits	189,321	-	-	-	-	189,321
Federal grants	195,435	-	-	-	-	195,435
State-shared revenues, grants, and other State aid	473,723	176,145	-	-	66,318	716,186
Cable fees	-	-	-	-	4,112	4,112
Other charges for services	297,389	-	-	-	-	297,389
Fines and forfeitures	10,942	-	-	-	-	10,942
Interest and rentals	10,538	2,369	7,001	26,148	2,948	49,004
Other	153,077	-	14,681	-	113,045	280,803
Total revenue	3,244,944	178,514	21,682	26,148	450,762	3,922,050
<b>Expenditures</b>						
Current:						
General government	606,364	-	-	-	-	606,364
Public safety	1,350,333	-	-	-	-	1,350,333
Public works	1,082,274	-	-	-	-	1,082,274
Community maintenance and development	-	333,983	32,427	-	103,219	469,629
Recreation and culture	61,732	-	-	-	-	61,732
Municipal building construction	-	-	-	2,773,763	-	2,773,763
Public improvement grants	178,961	-	-	-	-	178,961
Other	-	-	-	-	65,158	65,158
Debt service - Interest	-	-	-	-	211,349	211,349
Debt service - Principal repayment	-	-	-	-	140,000	140,000
Total expenditures	3,279,664	333,983	32,427	2,773,763	519,726	6,939,563
<b>Excess of Expenditures Over Revenue</b>	(34,720)	(155,469)	(10,745)	(2,747,615)	(68,964)	(3,017,513)
<b>Other Financing Sources (Uses)</b>						
Transfers in	105,000	-	-	-	154,321	259,321
Transfers in from component unit	58,841	-	-	-	-	58,841
Transfers out	(83,752)	(50,706)	-	-	(144,452)	(278,910)
Total other financing sources (uses)	80,089	(50,706)	-	-	9,869	39,252
<b>Net Change in Fund Balances</b>	45,369	(206,175)	(10,745)	(2,747,615)	(59,095)	(2,978,261)
<b>Fund Balances - Beginning of year</b>	337,003	242,642	706,064	2,791,216	315,716	4,392,641
<b>Fund Balances - End of year</b>	<u>\$ 382,372</u>	<u>\$ 36,467</u>	<u>\$ 695,319</u>	<u>\$ 43,601</u>	<u>\$ 256,621</u>	<u>\$ 1,414,380</u>

# City of Gibraltar, Michigan

## **Governmental Funds Reconciliation of the Statement of Revenue, Expenditures, and Changes in Fund Balances of Governmental Funds to the Statement of Activities Year Ended June 30, 2004**

**Net Change in Fund Balances - Total Governmental Funds** \$ (2,978,261)

Amounts reported for governmental activities in the statement of activities are different because:

Governmental funds report capital outlays as expenditures; in the statement of activities, these costs are allocated over their estimated useful lives as depreciation	3,519,009
Governmental funds depreciation expense on fixed assets are reported as an expense on the statement of activities and are not reported as an expense for fund purposes	(446,681)
State-shared revenue is recorded when earned in the statement of activities	(4,557)
Repayment of bond principal is an expenditure in the governmental funds, but not in the statement of activities (where it reduces long-term debt)	188,122
Accrued interest expense on long-term debt is recorded in the statement of activities	(57,320)
Decrease in accumulated employee sick and vacation pay is recorded when earned in the statement of activities	<u>45,645</u>

**Change in Net Assets of Governmental Activities** \$ 265,957

# City of Gibraltar, Michigan

## Proprietary Funds Statement of Net Assets June 30, 2004

	Water and Sewer Fund
<b>Assets</b>	
Current assets:	
Cash and cash equivalents	\$ 331,299
Accounts receivable:	
Customers	195,550
Accrued interest	373
Other	41,034
Due from other funds	<u>25,083</u>
Total current assets	593,339
Noncurrent assets:	
Restricted assets	130,244
Capital assets - Net	<u>9,020,286</u>
Total noncurrent assets	<u>9,150,530</u>
Total assets	9,743,869
<b>Liabilities</b>	
Current liabilities:	
Accounts payable	156,173
Current portion of long-term debt	<u>130,469</u>
Total current liabilities	286,642
Noncurrent liabilities - Long-term debt - Net of current portion	<u>1,236,592</u>
Total liabilities	<u>1,523,234</u>
<b>Net Assets</b>	
Investment in capital assets - Net of related debt	7,653,225
Restricted	130,244
Unrestricted	<u>437,166</u>
Total net assets	<u><u>\$ 8,220,635</u></u>

# City of Gibraltar, Michigan

## Proprietary Funds Statement of Revenue, Expenses, and Changes in Net Assets Year Ended June 30, 2004

	Water and Sewer Fund
<b>Operating Revenue</b>	
Sewage disposal	\$ 419,365
Sale of water	313,245
Other charges for services	<u>2,773</u>
Total operating revenue	735,383
<b>Operating Expenses</b>	
Cost of water produced/purchased	156,272
Cost of sewage disposal	283,796
Operation and maintenance	52,091
General and administrative	304,760
Depreciation	<u>271,394</u>
Total operating expenses	<u>1,068,313</u>
<b>Operating Loss</b>	(332,930)
<b>Nonoperating Revenue (Expense)</b>	
Interest income	5,892
Interest expense	(33,449)
Debt service charges	<u>92,056</u>
Total nonoperating income	<u>64,499</u>
<b>Change in Net Assets - Before transfers and contributions</b>	(268,431)
<b>Operating Transfers In</b>	<u>19,589</u>
<b>Change in Net Assets - Before contributions</b>	(248,842)
<b>Capital Contributions</b>	<u>136,025</u>
<b>Change in Net Assets</b>	(112,817)
<b>Net Assets - July 1, 2003</b>	<u>8,333,452</u>
<b>Net Assets - June 30, 2004</b>	<u><b>\$ 8,220,635</b></u>

# City of Gibraltar, Michigan

## Proprietary Funds Statement of Cash Flows Year Ended June 30, 2004

	Enterprise - Water and Sewer Fund
<b>Cash Flows from Operating Activities</b>	
Receipts from customers	\$ 724,741
Payments to suppliers and employees	(348,446)
Internal activity - Reimbursements to other funds	(250,000)
Net cash provided by operating activities	126,295
<b>Cash Flows from Capital and Related Financing Activities</b>	
Principal payments on long-term debt	(126,918)
Debt service charges	92,056
Interest paid on bonds	(33,449)
Purchase of capital assets	(367,531)
Tap-in fees	136,025
Transfers in from other funds	19,589
Net cash used in capital and related financing activities	(280,228)
<b>Cash Flows from Investing Activities</b> - Interest received on investments	5,892
<b>Net Decrease in Cash and Cash Equivalents</b>	(148,041)
<b>Cash and Cash Equivalents</b> - Beginning of year	585,012
<b>Cash and Cash Equivalents</b> - End of year	<u><u>\$ 436,971</u></u>
<b>Balance Sheet Classification of Cash and Cash Equivalents</b>	
Cash and investments	\$ 331,299
Restricted assets (Note 7)	105,672
Total cash and cash equivalents	<u><u>\$ 436,971</u></u>
<b>Reconciliation of Operating Loss to Net Cash from Operating Activities</b>	
Operating loss	\$ (332,930)
Adjustments to reconcile operating loss to net cash from operating activities:	
Depreciation and amortization	271,394
Changes in assets and liabilities:	
Receivables	40,553
Other assets	27,606
Accounts payable	119,672
Net cash provided by operating activities	<u><u>\$ 126,295</u></u>

There were no noncash activities in the current year.

# City of Gibraltar, Michigan

## Fiduciary Funds Statement of Net Assets June 30, 2004

	Pension Trust Funds	Agency Fund
<b>Assets</b>		
Cash and cash equivalents	\$ 1,291,077	\$ 374
Investments	6,387,957	-
Receivables - Accrued interest	49,292	-
Total assets	7,728,326	<u>\$ 374</u>
<b>Liabilities</b> - Insurance deposits	<u>-</u>	<u>\$ 374</u>
<b>Net Assets</b> - Held in trust for employees' retirement systems	<u>\$ 7,728,326</u>	

# City of Gibraltar, Michigan

## Fiduciary Funds Statement of Changes in Net Assets Year Ended June 30, 2004

	Pension and Trust Funds
<b>Additions</b>	
Investment income:	
Interest and dividends	\$ 208,254
Net increase in fair value of investments	562,127
Net investment income	770,381
Contributions:	
Employer	112,169
Employee	70,280
Total contributions	182,449
Total additions	952,830
<b>Deductions</b>	
Benefit payments	245,039
Administrative expenses	43,172
Total deductions	288,211
<b>Net Increase in Net Assets Held in Trust</b>	664,619
<b>Net Assets Held in Trust for Pension</b>	
Beginning of year	7,063,707
End of year	<u><u>\$ 7,728,326</u></u>

### **Note I - Summary of Significant Accounting Policies**

The accounting policies of the City of Gibraltar, Michigan (the "City") conform to accounting principles generally accepted in the United States of America (GAAP) as applicable to governmental units. The following is a summary of the significant accounting policies used by the City of Gibraltar, Michigan:

#### **Reporting Entity**

The City of Gibraltar, Michigan is governed by an elected six-member council and mayor. The accompanying financial statements present the City and its component units, entities for which the City is considered to be financially accountable. Although blended component units are legal separate entities, in substance, they are part of the City's operations. Each discretely presented component unit is reported in a separate column in the government-wide financial statements to emphasize that it is legally separate from the City (see discussion below for description).

The Downtown Development Authority is reported within the component unit column in the combined financial statements. It is reported in a separate column to emphasize that it is legally separate from the City. The Downtown Development Authority was created to promote economic growth within the downtown district. The Authority's governing body consists of nine individuals, all of whom are approved by the City Council. In addition, the Authority's budget is subject to approval by the City Council.

#### **Government-wide and Fund Financial Statements**

The government-wide financial statements (i.e., the statement of net assets and the statement of activities) report information on all of the nonfiduciary activities of the primary government and its component unit. For the most part, the effect of interfund activity has been removed from these statements. Governmental activities, normally supported by taxes and intergovernmental revenues, are reported separately from business-type activities, which rely to a significant extent on fees and charges for support. Likewise, the primary government is reported separately from certain legally separate component units for which the primary government is financially accountable.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The statement of activities demonstrates the degree to which the direct expenses of a given function or segment are offset by program revenues. Direct expenses are those that are clearly identifiable with a specific function or segment. Program revenues include: (1) charges to customers or applicants who purchase, use, or directly benefit from goods, services, or privileges provided by a given function or segment and (2) grants and contributions that are restricted to meeting the operational or capital requirements of a particular function or segment. Taxes and other items not properly included among program revenues are reported instead as general revenue.

Separate financial statements are provided for governmental funds, proprietary funds, and fiduciary funds, even though the latter are excluded from the government-wide financial statements. Major individual governmental funds and major individual Enterprise Funds are reported as separate columns in the fund financial statements.

#### **Measurement Focus, Basis of Accounting, and Financial Statement Presentation**

The government-wide financial statements are reported using the economic resources measurement focus and the accrual basis of accounting, as are the proprietary fund, fiduciary fund, and component unit financial statements. Revenue is recorded when earned and expenses are recorded when a liability is incurred, regardless of the timing of related cash flows. Property taxes are recognized as revenue in the year for which they are levied. Grants and similar items are recognized as revenue as soon as all eligibility requirements imposed by the provider have been met.

Governmental fund financial statements are reported using the current financial resources measurement focus and the modified accrual basis of accounting. Revenue is recognized as soon as it is both measurable and available. Revenue is considered to be available if it is collected within the current period or soon enough thereafter to pay liabilities of the current period. For this purpose, the City considers revenues to be available if they are collected within 60 days of the end of the current fiscal period. The following major revenue sources meet the availability criterion: state-shared revenue, state gas and weight tax revenue, district court fines, and interest associated with the current fiscal period. Conversely, special assessments will be collected after the period of availability; in this case receivables are recorded for these, along with a "deferred revenue" liability. All other revenue items are considered to be available only when cash is received by the City.

### Note I - Summary of Significant Accounting Policies (Continued)

Expenditures generally are recorded when a liability is incurred, as under accrual accounting. However, debt service expenditures, expenditures relating to compensated absences, and claims and judgments are recorded only when payment is due.

The City reports the following major governmental funds:

**General Fund** - The General Fund is the City's primary operating fund. It accounts for all financial resources of the general government, except those required to be accounted for in another fund. General Fund activities are financed by revenue from general property taxes, state-shared revenue, and other sources.

**Major Streets Fund** - The Major Streets Fund is used to account for the construction and maintenance of the City's major streets. Revenues received under ACT 51 for use on major streets are recorded in this fund.

**Land Revolving Fund** - The Land Revolving Fund is used to account for proceeds from City land sales as well as any expenditures made with these funds for community improvements.

**City Hall Construction Fund** - The City Hall Construction Fund is used to account for the portion of the construction of the new municipal building that is being financed with bonds issued by the City.

The City reports the following major proprietary fund:

**Enterprise Fund - Water and Sewer Fund** - The Enterprise Fund - Water and Sewer Fund is used to account for the results of operations that provide a service to citizens and are financed primarily by a user charge for the provision of that service.

Additionally, the City reports the following fund types:

**Pension Trust Funds** - The Pension Trust Funds account for the resources set aside by the City to provide retirement benefits for its employees in accordance with resolutions, ordinances, employee agreements, and union contracts.

**Agency Fund** - The Agency Fund accounts for assets held by the City in a trustee capacity or as an agent for individuals, organizations, other governments, or other funds. The Agency Fund is custodial in nature (assets equal liabilities) and does not involve the measurement of results of operations.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

Operating expenses for proprietary funds include the cost of source of supply, transmission and distribution maintenance, and administrative and general expenses, including depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expense.

Private sector standards of accounting issued prior to December 1, 1989 are generally followed in both the government-wide and proprietary fund financial statements to the extent that those standards do not conflict with the standards of the Governmental Accounting Standards Board. The City has elected not to follow private sector standards issued after November 30, 1989 for its business-type activities.

As a general rule, the effect of interfund activity has been eliminated from the government-wide financial statements. Exceptions to this general rule are charges between the City's water and sewer function and various other functions of the City. Eliminations of these charges would distort the direct costs and program revenues reported for the various functions concerned.

Proprietary funds distinguish operating revenue and expenses from nonoperating items. Operating revenue and expenses generally result from providing services in connection with a proprietary fund's principal ongoing operations. The principal operating revenue of our proprietary funds relates to charges to customers for sales and services. The Water and Sewer Fund also recognizes the portion of tap fees intended to recover current costs (e.g., labor and materials to hook up new customers) as operating revenue. The portion intended to recover the cost of the infrastructure is recognized as nonoperating revenue. Operating expenses for proprietary funds include the cost of sales and services, administrative expenses, and depreciation on capital assets. All revenue and expenses not meeting this definition are reported as nonoperating revenue and expenses.

#### **Property Tax Revenue**

Property taxes are levied on each July 1 on the taxable valuation of property as of the preceding December 31. Taxes are considered delinquent on March 1 of the following year, at which time penalties and interest are assessed.

### **Note 1 - Summary of Significant Accounting Policies (Continued)**

The 2004 taxable valuation of the City totaled \$131.2 million (a portion of which is abated and a portion of which is captured by the DDA) on which taxes levied consisted of 15.07 mills for operating purposes, 1.3 mills for solid waste services, and 2.0 mills for debt service. This resulted in \$1.63 million for operating, \$150,000 for solid waste services, and \$264,000 for debt service. These amounts are recognized in the respective General, Special Revenue, and Debt Service Funds financial statements as tax revenue.

Currently, a major taxpayer is in legal proceedings due to its financial condition that could result in the Company not being able to pay its outstanding delinquent property taxes in the amount of approximately \$151,700. The City has reserved this amount as uncollectible as of year end. The related company's taxes due for the City's fiscal year ending June 30, 2005 are approximately \$88,000.

#### **Assets, Liabilities, and Net Assets or Equity**

**Bank Deposits and Investments** - Cash and cash equivalents include cash on hand, demand deposits, and short-term investments with a maturity of three months or less when acquired. Investments are stated at fair value.

**Receivables and Payables** - In general, outstanding balances between funds are reported as "due to/from other funds." Activity between funds that are representative of lending/borrowing arrangements outstanding at the end of the fiscal year is referred to as "advances to/from other funds." Any residual balances outstanding between the governmental activities and the business-type activities are reported in the government-wide financial statements as "internal balances." All trade and property tax receivables are shown as net of allowance for uncollectible amounts.

**Prepaid Items** - Certain payments to vendors reflect costs applicable to future fiscal years and are recorded as prepaid items in both government-wide and fund financial statements.

**Capital Assets** - Capital assets, which include property, plant, equipment, and infrastructure assets (e.g., roads, bridges, sidewalks, and similar items), are reported in the applicable governmental or business-type activities column in the government-wide financial statements. Capital assets are defined by the City as assets with an initial individual cost of more than \$2,000 and an estimated useful life in excess of one year. Such assets are recorded at historical cost or estimated historical cost if purchased or constructed. Donated capital assets are recorded at estimated fair market value at the date of donation.

### Note 1 - Summary of Significant Accounting Policies (Continued)

Buildings, equipment, and vehicles are depreciated using the straight-line method over the following useful lives:

Roads and sidewalks	10 to 25 years
Water and sewer distribution systems	50 to 75 years
Buildings and building improvements	40 years
Vehicles	3 to 10 years
Furniture and equipment	5 to 15 years

**Compensated Absences (Vacation and Sick Leave)** - It is the City's policy to permit employees to accumulate earned but unused sick and vacation pay benefits. Sick and vacation pay is accrued when earned. All vacation pay is accrued when incurred in the government-wide, proprietary, and fiduciary fund financial statements. A liability for these amounts is reported in governmental funds only for employee terminations as of year end.

**Long-term Obligations** - In the government-wide financial statements and the proprietary fund types in the fund financial statements, long-term debt and other long-term obligations are reported as liabilities in the applicable governmental activities, business-type activities, or proprietary fund-type statement of net assets. Bond premiums and discounts, as well as issuance costs, are deferred and amortized over the life of the bonds using the effective interest method. Bonds payable are reported net of the applicable bond premium or discount. Bond issuance costs are reported as deferred charges and amortized over the term of the related debt. In the fund financial statements, governmental fund types recognize bond premiums and discounts, as well as bond issuance costs during the current period. The face amount of debt issued is reported as other financing sources. Premiums received on debt issuances are reported as other financing sources while discounts are reported as other financing uses. Issuance costs are reported as debt service expenditures.

**Fund Equity** - In the fund financial statements, governmental funds report reservations of fund balance for amounts that are not available for appropriation or are legally restricted by outside parties for use for a specific purpose. Designations of fund balance represent tentative management plans that are subject to change.

**Use of Estimates** - The preparation of financial statements in conformity with accounting principles generally accepted in the United States of America requires management to make estimates and assumptions that affect the reported amounts of assets and liabilities and disclosure of contingent assets and liabilities at the date of the financial statements and the reported amounts of revenue and expenses during the period. Actual results could differ from those estimates.

### Note 2 - Deposits and Investments

Michigan Compiled Laws Section 129.91 (Public Act 20 of 1943, as amended) authorizes local governmental units to make deposits and invest in the accounts of federally insured banks, credit unions, and savings and loan associations that have offices in Michigan. The local unit is allowed to invest in bonds, securities, and other direct obligations of the United States or any agency or instrumentality of the United States; repurchase agreements; bankers' acceptances of United States banks; commercial paper rated within the two highest classifications, which matures not more than 270 days after the date of purchase; obligations of the State of Michigan or its political subdivisions, which are rated as investment grade; and mutual funds composed of investment vehicles that are legal for direct investment by local units of government in Michigan.

The City has designated two banks for the deposit of its funds. The investment policy adopted by the Council in accordance with Public Act 196 of 1997 has authorized investment in those investment vehicles listed above under the State statutory authority.

The City of Gibraltar, Michigan's deposits and investment policies are in accordance with statutory authority.

The retirement systems' funds are also authorized by various State of Michigan laws to invest in certain corporate equity or debt instruments and certain other specified investment vehicles.

At year end, the deposits and investments were reported in the basic financial statements in the following categories:

	Governmental Activities	Business-type Activities	Fiduciary Funds	Total Primary Government	Component Units
Cash and cash equivalents	\$ 455,783	\$ 331,299	\$ 1,291,077	\$ 2,078,159	\$ 673,740
Investments	1,256,361	-	6,387,957	7,644,318	145,000
Restricted assets	-	105,672	-	105,672	2,389,086
Total	<u>\$ 1,712,144</u>	<u>\$ 436,971</u>	<u>\$ 7,679,034</u>	<u>\$ 9,828,149</u>	<u>\$ 3,207,826</u>

### Note 2 - Deposits and Investments (Continued)

The breakdown between deposits and investments for the City is as follows:

	Primary Government	Component Units
Bank deposits (checking accounts, savings accounts, and certificates of deposit)	\$ 2,183,131	\$ 3,062,826
Investments in securities, mutual funds, bank investment pools, and similar vehicles	7,644,318	145,000
Petty cash or cash on hand	700	-
Total	<u>\$ 9,828,149</u>	<u>\$ 3,207,826</u>

#### Deposits

The deposits of the City were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at approximately \$3,491,000, of which \$400,000 is covered by federal depository insurance and approximately \$3,091,000 is uninsured and uncollateralized. The City believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all deposits.

As a result, the City evaluates each financial institution with which it deposits City funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

#### Investments

The Pension Trust Fund is also authorized by Michigan Public Act 314 of 1965, as amended, to invest in certain reverse repurchase agreements, stocks, diversified investment companies, annuity investment contracts, real estate leased to public entities, mortgages, real estate (if the trust fund's assets exceed \$250 million), debt or equity of certain small businesses, certain state and local government obligations, and certain other specified investment vehicles.

Investments are categorized into these three categories of credit risk:

Category 1 - Insured or registered, with securities held by the City or its agent in the City's name;

Category 2 - Uninsured and unregistered, with securities held by the counterparty's trust department or agent in the City's name; and

### Note 2 - Deposits and Investments (Continued)

Category 3 - Uninsured and unregistered, with securities held by the counterparty or by its trust department or agent but not in the City's name.

At year end, the City's investment balances were categorized as follows:

	Category			Reported Amount (Fair Value)
	1	2	3	
Primary government:				
Corporate bonds and U.S. government bonds	\$ -	\$ 2,209,967	\$ -	\$ 2,209,967
Common and preferred stock	-	3,716,322	-	3,716,322
Subtotal	\$ -	\$ 5,926,289	\$ -	5,926,289
Investments not subject to categorization:				
Bank investment pool funds				1,256,361
Mutual funds				461,668
Total primary government				\$ 7,644,318
Component units - Bank investment pool funds				\$ 145,000

Management believes that these investments comply with the investment authority noted above. The mutual funds and bank investment pools are not categorized because they are not evidenced by securities that exist in physical or book entry form. The mutual funds are registered with the SEC. The bank investment pools are regulated by the Michigan Banking Act. The fair value of the position in the bank investment pools is the same as the value of the pool shares.

### Note 2 - Deposits and Investments (Continued)

Included in City pension funds' investments at June 30, 2004 are approximately \$10,000 of securities issued by the Government National Mortgage Association (GNMA) and \$413,000 of securities issued by the Federal Home Loan Mortgage Corporation (FHLM). These investments are backed by the full faith and credit of the U.S. government. The yields provided by these mortgage-related securities historically have exceeded the yields on other types of U.S. government securities with comparable maturities, in large measure due to the potential for prepayment. Prepayment could result in difficulty in reinvesting the prepaid amounts in investments with comparable yields.

#### Component Unit

The deposits of the City's component unit were reflected in the accounts of the bank (without recognition of checks written but not yet cleared or of deposits in transit) at \$3,071,000. Of that amount, approximately \$200,000 was covered by federal depository insurance and approximately \$2,871,000 was uninsured and uncollateralized.

The City's component unit believes that due to the dollar amounts of cash deposits and the limits of FDIC insurance, it is impractical to insure all bank deposits. As a result, the City's component unit evaluates each financial institution with which it deposits funds and assesses the level of risk of each institution; only those institutions with an acceptable estimated risk level are used as depositories.

### Note 3 - Receivables

Receivables as of year end for the City's individual major funds and the nonmajor funds in the aggregate, business-type, and component unit, including the applicable allowances for uncollectible accounts, are as follows:

	General Fund	Nonmajor and Other Funds	Total Governmental Funds	Business-type	Component Unit
Receivables:					
Taxes	\$ 252,446	\$ 5,367	\$ 257,813	\$ -	\$ -
Intergovernmental	158,726	41,187	199,913	-	-
Customers	-	-	-	236,957	-
Interest and other	47,964	43,361	91,325	-	7,204
Less allowance for uncollectibles	(151,696)	-	(151,696)	-	-
Net receivables	<u>\$ 307,440</u>	<u>\$ 89,915</u>	<u>\$ 397,355</u>	<u>\$ 236,957</u>	<u>\$ 7,204</u>

### Note 4 - Capital Assets

Capital asset activity of the City's governmental and business-type activities was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Governmental Activities</b>				
Capital assets not being depreciated:				
Land	\$ 228,142	\$ -	\$ -	\$ 228,142
Construction in progress	-	3,003,169	-	3,003,169
Subtotal	228,142	3,003,169	-	3,231,311
Capital assets being depreciated:				
Roads and sidewalks	3,677,282	418,398	-	4,095,680
Buildings and improvements	824,839	-	-	824,839
Vehicles	1,614,297	85,574	-	1,699,871
Furniture and equipment	716,123	11,868	-	727,991
Subtotal	6,832,541	515,840	-	7,348,381
Accumulated depreciation:				
Roads and sidewalks	751,757	184,051	-	935,808
Buildings and improvements	251,010	18,559	-	269,569
Vehicles	746,533	122,480	-	869,013
Furniture and equipment	355,972	121,591	-	477,563
Subtotal	2,105,272	446,681	-	2,551,953
Net capital assets being depreciated	4,727,269	69,159	-	4,796,428
Net capital assets	\$ 4,955,411	\$ 3,072,328	\$ -	\$ 8,027,739

### Note 4 - Capital Assets (Continued)

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Business-type Activities</b>				
Capital assets not being depreciated:				
Land	\$ 26,007	\$ -	\$ -	\$ 26,007
Construction in progress	-	122,063	-	122,063
Subtotal	26,007	122,063	-	148,070
Capital assets being depreciated:				
Water and sewer distribution systems	11,340,645	245,467	-	11,586,112
Equipment	538,528	-	-	538,528
Subtotal	11,879,173	245,467	-	12,124,640
Accumulated depreciation	2,981,030	271,394	-	3,252,424
Net capital assets being depreciated	8,898,143	(25,927)	-	8,872,216
Net capital assets	<u>\$ 8,924,150</u>	<u>\$ 96,136</u>	<u>\$ -</u>	<u>\$ 9,020,286</u>

Capital asset activity for the City of Gibraltar's component unit for the year was as follows:

	Balance July 1, 2003	Additions	Disposals and Adjustments	Balance June 30, 2004
<b>Downtown Development Authority</b>				
Capital assets not being depreciated:				
Land	\$ 389,732	\$ 444,999	\$ -	\$ 834,731
Construction in progress	-	630,715	-	630,715
Net capital assets	<u>\$ 389,732</u>	<u>\$ 1,075,714</u>	<u>\$ -</u>	<u>\$ 1,465,446</u>

### Note 4 - Capital Assets (Continued)

Depreciation expense was charged to programs of the primary government as follows:

Governmental activities:

General government	\$ 885
Public safety	136,682
Public works	287,780
Recreation and culture	<u>21,334</u>

Total governmental activities	<u>\$ 446,681</u>
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Business-type activities - Water and Sewer	<u>\$ 271,394</u>
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**Construction Commitments** - The City has active construction projects at year end. The projects include the municipal complex project and the Adams Street reconstruction. At year end, the City's commitments with contractors are as follows:

	<u>Spent to Date</u>	<u>Remaining Commitment</u>
General government obligation - Municipal complex	\$ 2,962,632	\$ 43,600
DDA obligation - Municipal complex	630,715	2,389,086
Major Streets Fund - Adams Street project	229,405	658,155
Water and Sewer Fund - Adams Street main replacement	<u>122,064</u>	<u>169,366</u>
Total	<u>\$ 3,944,816</u>	<u>\$ 3,260,207</u>

### Note 5 - Interfund Receivables, Payables, and Transfers

The composition of interfund balances is as follows:

Receivable Fund	Payable Fund	Amount
<b>Due to/from Other Funds</b>		
General Fund	Other governmental funds	\$ 11,080
Water and Sewer Fund	General Fund	25,083
City Hall Fund	Other governmental funds	11,402
Other governmental funds	General Fund	<u>140,340</u>
Total		<u>\$ 187,905</u>

#### Advances from/to Other Funds

Land Fund	Major Streets Fund	<u>\$ 113,936</u>
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#### Due to/from Primary Government and Component Units

Primary government - City Hall Fund	DDA	<u>\$ 29,000</u>
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These balances result from the time lag between the dates that goods and services are provided or reimbursable expenditures occur, transactions are recorded in the accounting system, and payments between funds are made.

Interfund transfers reported in the fund financial statements are comprised of the following:

Fund Providing Resources	Fund Receiving Resources	Amount
General Fund	Public Works Severance Reserve Fund	\$ 5,000
General Fund	Road Bonds Fund	59,163
General Fund	Water and Sewer Fund	19,589
Local Streets Fund	Road Bonds Fund	39,452
City Project Fund	General Fund	105,000
Major Streets Fund	Local Streets Fund	36,321
Major Streets Fund	Road Bonds Fund	<u>14,385</u>
Total transfers		<u>\$ 278,910</u>

### Note 5 - Interfund Receivables, Payables, and Transfers (Continued)

The transfers from the General Fund to the Public Works Severance Reserve and the Water and Sewer Funds represent the use of unrestricted resources to finance those programs, in accordance with budgetary authorizations; the transfer from the Major Streets Fund to the Local Streets Fund represents the sharing of gas and weight tax revenues, in accordance with Act 51; and the transfers from the General Fund, the Major Streets Fund, and the Local Streets Funds to the Road Bonds Fund represents the movement of resources to be used to service street related debt. The transfer from the City Project Fund to the General Fund represents the use of unrestricted resources to finance general operations.

The transfer from the component unit to the General Fund represents the use of resources to fund improvements within the DDA area.

### Note 6 - Long-term Debt

The City issues bonds to provide for the acquisition and construction of major capital facilities. General obligation bonds are direct obligations and pledge the full faith and credit of the City. Installment purchase agreements are also general obligations of the government. Long-term obligation activity can be summarized as follows:

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Governmental Activities</b>						
General obligation bonds:						
Road Unlimited Tax Bonds						
Amount of issue: \$2,500,000	4.00% -	\$145,000 -				
Maturing through 2013	4.25%	\$230,000	\$ 2,005,000	\$ (140,000)	\$ 1,865,000	\$ 145,000
General Obligation Unlimited Tax Bonds						
Amount of issue: \$3,000,000	2.25% -	\$50,000 -				
Maturing through 2034	4.75%	\$200,000	3,000,000	-	3,000,000	50,000
Installment purchase agreements:						
District Court Installment Contract						
Amount of issue: \$2,000,000						
Maturing through 2006	N/A	N/A	73,246	(4,372)	68,874	34,437
Fire Truck Installment Note						
Amount of issue: \$355,906		\$34,563 -				
Maturing through 2012	4.29%	\$46,392	355,906	(34,076)	321,830	34,563
Backhoe Installment Note						
Amount of issue: \$56,740		\$8,226 -				
Maturing through 2005	5.5%	\$10,779	19,886	(9,674)	10,212	10,212
Total governmental activities			\$ 5,454,038	\$ (188,122)	\$ 5,265,916	\$ 274,212

# City of Gibraltar, Michigan

## Notes to Financial Statements June 30, 2004

### Note 6 - Long-term Debt (Continued)

	Interest Rate Ranges	Principal Maturity Ranges	Beginning Balance	Additions (Reductions)	Ending Balance	Due Within One Year
<b>Business-type Activities</b>						
General obligation bonds:						
South Huron Valley Utility Authority						
Wastewater Bonds						
Amount of issue: \$461,433		\$44,548 -				
Maturing through 2011	2.00%	\$50,267	\$ 376,250	\$ (43,946)	\$ 332,304	\$ 44,548
South Huron Valley Utility Authority						
Sewer System Plant Expansion Bonds						
Amount of issue: \$1,137,791		\$48,735 -				
Maturing through 2021	2.00%	\$69,683	1,045,237	(47,666)	997,571	48,735
Installment purchase agreements:						
Vactor Truck Installment Note						
Amount of issue: \$177,000		\$31,815 -				
Maturing through 2005	5.27%	\$39,179	72,491	(35,305)	37,186	37,186
Total business-type activities			\$ 1,493,978	\$ (126,917)	\$ 1,367,061	\$ 130,469

Annual debt service requirements to maturity for the above bonds and note obligations are as follows:

	Governmental Activities			Business-type Activities		
	Principal	Interest	Total	Principal	Interest	Total
2005	\$ 274,212	\$ 216,725	\$ 490,937	\$ 130,469	\$ 30,535	\$ 161,004
2006	275,483	207,471	482,954	95,469	26,541	122,010
2007	252,595	198,114	450,709	97,741	24,494	122,235
2008	259,210	188,162	447,372	99,713	22,401	122,114
2009	275,893	177,594	453,487	101,899	20,262	122,161
2010-2014	1,488,523	706,890	2,195,413	384,987	70,726	455,713
2015-2019	385,000	514,859	899,859	318,915	33,771	352,686
2020-2024	500,000	418,094	918,094	137,868	3,119	140,987
2025-2029	670,000	284,250	954,250	-	-	-
2030-2034	885,000	106,953	991,953	-	-	-
Total	\$ 5,265,916	\$ 3,019,112	\$ 8,285,028	\$ 1,367,061	\$ 231,849	\$ 1,598,910

**Component Units** - Long-term debt of the component units consists of one bond issue in the amount of \$3,500,000 maturing through 2024 and bearing interest at rates ranging from 2.25 percent to 4.35 percent. In addition, a land contract exists in the amount of \$66,800, whose final payment will be made in 2005.

### Note 7 - Restricted Assets

The balance of the restricted asset within the component unit related to unspent bond proceeds.

Specific assets of the Enterprise Fund have been restricted to pay the various Sewer and Wastewater Bonds. These funds were generated through specific user charges. Retained earnings have been reserved for net restricted assets. Following is the detail of restricted assets at June 30, 2004:

Cash and cash equivalents	\$ 105,672
Accounts receivable	<u>24,572</u>
Total restricted assets	<u>\$ 130,244</u>

### Note 8 - Risk Management

The City is exposed to various risks of loss related to property loss, torts, errors and omissions, and employee injuries (workers' compensation), as well as medical benefits provided to employees. The City has purchased commercial insurance for medical claims and participates in the Michigan Municipal League risk pool for claims relating to workers' compensation and participates in the Michigan Municipal Risk Management Authority risk pool for general and property claims. Settled claims relating to the commercial insurance have not exceeded the amount of insurance coverage in any of the past three fiscal years.

The Michigan Municipal League risk pool program operates as a common risk-sharing management program for local units of government in Michigan; member premiums are used to purchase commercial excess insurance coverage and to pay member claims in excess of deductible amounts.

The Michigan Municipal Risk Management Authority's State Pool program operates as a common risk-sharing management program for local units of government in Michigan. Member premiums are used to purchase excess insurance coverage and to pay member claims in excess of deductible amounts. A portion of the excess insurance coverage is underwritten by the Authority itself.

### Note 9 - Defined Benefit Pension Plan

#### Public Safety Officers' Retirement System

**Plan Description** - The Public Safety Officers' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar Public Safety Officers' Retirement System Pension Board; this plan covers all full-time public safety employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2003, the date of the most recent actuarial valuation, membership consisted of seven retirees and beneficiaries currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and 12 active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

The obligation to contribute to and maintain the system for these employees was established by negotiation with the City's competitive bargaining units and requires a contribution from the employees of 6 percent. The funding policy provides for periodic employer contributions at actuarially determined rates. Administrative costs of the plan are financed through investment earnings.

**Annual Pension Cost** - For the year ended June 30, 2004, the City's annual pension cost of \$0 was equal to the City's required and actual contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry actual age cost method. Significant actuarial assumptions used include (a) a 7.0 percent investment rate of return, (b) projected salary increases of 5.5 percent to 8.5 percent per year (both (a) and (b) include inflation adjustments of 5 percent annually), and (c) no postretirement benefit increases. The actuarial value of assets was determined using techniques that smooth the effects of short-term volatility over a four-year period. The unfunded actuarial liability is being amortized as a level percentage of payroll on a closed basis. The remaining amortization period is 12 years.

For each of the past six years, the annual pension cost (APC) for the plan has been \$0. Therefore, the correlating percentage of APC contributed and the net pension obligation were also \$0.

### Note 9 - Defined Benefit Pension Plan (Continued)

**Reserves** - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 397,289
Reserve for retired benefit payments	3,463,867

#### General Employees' Retirement System

**Plan Description** - The General Employees' Retirement System is a single-employer defined benefit pension plan that is administered by the City of Gibraltar General Employees' Retirement System Pension Board; this plan covers certain full-time general employees of the City. The system provides retirement, disability, and death benefits to plan members and their beneficiaries. At June 30, 2004, the date of the most recent actuarial valuation, membership consisted of one retiree and/or beneficiary currently receiving benefits and terminated employees entitled to benefits but not yet receiving them, and eight current active employees. The plan does not issue a separate financial report.

**Contributions** - Plan member contributions are recognized in the period in which the contributions are due. Employer contributions to the plan are recognized when due and the employer has made a formal commitment to provide the contributions. Benefits and refunds are recognized when due and payable in accordance with the terms of the plan. Please refer to Note 1 for further significant accounting policies.

Employees are obligated to contribute 5.0 percent of their total compensation.

**Annual Pension Cost** - For the year ended June 30, 2004, the City's annual pension cost of \$112,129 was equal to the City's required contribution. The annual required contribution was determined as part of an actuarial valuation at June 30, 2003, using the entry age actuarial cost method. Significant actuarial assumptions used include (a) a 6.0 investment rate of return, including an inflationary adjustment of 3.5 percent annually, (b) projected salary increases of 3.5 percent per year attributable to inflation, and (c) no postretirement benefit increases. The actuarial value of assets was determined using fair market value. The unfunded actuarial liability is being amortized over the average future working lifetime of the plan's participants.

### Note 9 - Defined Benefit Pension Plan (Continued)

The three-year trend information for the plan is as follows:

	Fiscal Year Ended June 30		
	2004	2003	2002
Annual pension cost (APC)	\$ 112,129	\$ 44,470	\$ 27,034
Percentage of APC contributed	100%	79%	130%
Net pension obligation	\$ -	\$ -	\$ -

**Reserves** - As of June 30, 2004, the plan's legally required reserves have been fully funded as follows:

Reserve for employees' contributions	\$ 193,920
Reserve for retired benefit payments	20,491

### Note 10 - Other Postemployment Benefits

The City provides health care benefits to retirees in accordance with labor contracts. Currently, 15 retirees are eligible. The City includes retirees and their dependents in its insured health care plan, with no contribution required by the participant. Expenditures for postemployment health care benefits are recognized as the insurance premiums become due. These benefits are paid annually from the General Fund and totaled approximately \$196,000 during the year ended June 30, 2004.

**Upcoming Reporting Change** - The Governmental Accounting Standards Board has recently released Statement Number 45, *Accounting and Reporting by Employers for Postemployment Benefits Other Than Pensions*. The new pronouncement provides guidance for local units of government in recognizing the cost of retiree health care, as well as any "other" postemployment benefits (other than pensions). The new rules will cause the government-wide financial statements to recognize the cost of providing retiree health care coverage over the working life of the employee, rather than at the time the health care premiums are paid. The new pronouncement is effective for the year ending June 30, 2009.

### Note 11 - Joint Venture

**33rd District Court** - The City is a member of the 33rd District Court System (the "District Court"). The City appoints one member to the joint venture's governing board, who then approves the annual budget. The District Court receives its operating revenue principally through contributions from the member communities. The debt of the joint venture is being financed by member contributions. During the year ended June 30, 2004, the City received net fines and forfeitures of approximately \$11,000. Complete financial statements for the District Court can be obtained from the administrative offices at 19000 Van Horn Rd., Woodhaven, MI 48183. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

During the year ended June 30, 1996, the member communities of the District Court entered into an installment purchase agreement to finance an addition to the District Court facility. Under the terms of the agreement, each community is obligated for a share of the annual debt service payment. This share is proportionate to each community's relative annual case load. Of the total \$1,377,000 debt outstanding, the City of Gibraltar's current share of the obligation is approximately 5.0 percent, or \$68,874, and is recorded in the governmental activities of the government-wide statements. The City's share of the obligation is subject to change in future years based on case load. Debt service payments of approximately \$4,400 were deducted from the District Court revenue remitted to the City during the year ended June 30, 2004.

**South Huron Valley Utility Authority** - The City is a member of the South Huron Valley Utility Authority, which provides sanitary sewage disposal services. Each of the eight member communities appoints one member to the Board. The Authority receives its operating revenue through charges to the communities. The City's share of the debt of the joint venture is being financed by the City through debt service charges. During the year ended June 30, 2004, the City paid operating costs of \$283,796. In addition, the City paid \$91,612 in principal payments and \$30,507 in interest expense. Complete financial statements for the Authority can be obtained from the administrative offices at 46425 Tyler Road, Belleville, MI 48111.

Subsequent to year end, the Authority issued bonds in the amount of \$9.2 million. These bonds relate to system improvements. The City's share of the debt is approximately \$1.5 million. The City is unaware of any circumstances that would cause an additional benefit or burden to the participating governments in the near future.

### Note 12 - Construction Code Fees

The City oversees building construction in accordance with the State's Construction Code Act, including inspection of building construction and renovation to ensure compliance with the building codes. The City charges fees for these services. The law requires that these fees are used only for construction code costs, including an allocation of estimated overhead costs. A summary of the activity since January 1, 2000 is as follows:

Cumulative shortfall at July 1, 2003		\$ (45,384)
Current year building permit revenue		114,944
Current year related expenditures:		
Direct costs	\$ 56,390	
Estimated indirect costs	<u>35,000</u>	
Total construction code expenditures		<u>91,390</u>
Cumulative shortfall at June 30, 2004		<u>\$ (21,830)</u>

### Note 13 - Accounting and Reporting Change

In June 1999, the Governmental Accounting Standards Board (GASB) issued Statement No. 34, *Basic Financial Statements - and Management's Discussion and Analysis - for State and Local Governments*. The City of Gibraltar has applied the provisions of this statement in the accompanying financial statements (including the notes to the financial statements). The City has elected to implement both the general provisions of the statement and the retroactive reporting of the infrastructure in the current year. Certain significant changes in the current year statements include the following:

- A management's discussion and analysis (MD&A) section providing an analysis of the City's overall financial position and results of operations
- Financial statements prepared using full accrual accounting for all of the City's activities, including infrastructure (roads, bridges, etc.)
- A change in the fund financial statements to focus on the major funds
- Capital assets in the governmental activities column of the statement of net assets includes infrastructure assets (roads, bridges, etc.) not previously accounted for by the City totaling approximately \$3,677,000.
- The governmental activities column includes bonds and other long-term obligations totaling approximately \$5,454,000 at the beginning of the year, which had been previously reported in the General Long-term Debt Account Group.

## **Required Supplemental Information**

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# City of Gibraltar, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - General Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 337,003	\$ 337,003	\$ 337,003	\$ -
<b>Revenues</b>				
Property taxes	1,986,139	1,926,976	1,914,519	(12,457)
Federal sources	70,500	159,125	195,435	36,310
State sources	529,773	489,568	473,723	(15,845)
Fees and permits	123,400	123,400	189,321	65,921
Fines and forfeitures	10,000	10,000	10,942	942
Charges for services	283,000	290,200	297,389	7,189
Interest income	18,035	18,028	10,538	(7,490)
Other	226,964	193,520	153,077	(40,443)
Transfer from other funds	40,000	105,000	163,841	58,841
Total revenues	3,287,811	3,315,817	3,408,785	92,968
<b>Expenditures</b>				
General government:				
General government	252,880	319,662	319,066	596
Clerk	83,635	79,635	77,359	2,276
Attorney	57,000	76,000	79,541	(3,541)
Finance	120,394	116,894	109,928	6,966
Public library	15,000	15,000	14,498	502
Refuse collection	167,000	241,000	239,717	1,283
Parks and recreation	58,162	58,162	47,234	10,928
Engineering/Inspection	66,650	114,650	113,521	1,129
Assessor	17,682	34,132	29,404	4,728
Grants	73,000	128,000	178,961	(50,961)
Elections	7,500	3,900	3,847	53
Public safety:				
Police	1,316,776	1,255,816	1,219,351	36,465
Fire	144,923	136,323	130,982	5,341
Public works	823,046	727,480	716,255	11,225
Transfers to other funds	84,163	84,163	83,752	411
Total expenditures	3,287,811	3,390,817	3,363,416	27,401
<b>Fund Balance - End of year</b>	<b>\$ 337,003</b>	<b>\$ 262,003</b>	<b>\$ 382,372</b>	<b>\$ 120,369</b>

# City of Gibraltar, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Major Streets Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance - Beginning of year</b>	\$ 242,642	\$ 242,642	\$ 242,642	\$ -
<b>Revenues</b>				
State sources	172,345	172,345	176,145	3,800
Interest income	2,100	2,100	2,369	269
Total revenues	174,445	174,445	178,514	4,069
<b>Expenditures</b>				
Construction	10,000	10,000	229,405	(219,405)
Engineering fees	40,000	40,000	71,700	(31,700)
Operating expense	1,500	1,500	-	1,500
Traffic services	1,500	1,500	84	1,416
Snow and ice removal	13,000	13,000	6,486	6,514
Bond contribution	14,385	14,385	14,385	-
Auditing expense	4,000	4,000	4,295	(295)
Maintenance	10,000	10,000	21,056	(11,056)
Bike path	25,000	25,000	957	24,043
Transfer to Local Streets Fund	90,000	90,000	36,321	53,679
Total expenditures	209,385	209,385	384,689	(175,304)
<b>Fund Balance - End of year</b>	<b>\$ 207,702</b>	<b>\$ 207,702</b>	<b>\$ 36,467</b>	<b>\$ (171,235)</b>

# City of Gibraltar, Michigan

## Required Supplemental Information Budgetary Comparison Schedule - Land Revolving Fund Year Ended June 30, 2004

	Original Budget	Amended Budget	Actual	Variance with Amended Budget
<b>Fund Balance</b> - Beginning of year	\$ 706,064	\$ 706,064	\$ 706,064	\$ -
<b>Revenues</b>				
Interest income	15,000	15,000	14,681	(319)
Other	12,000	12,000	7,001	(4,999)
Total revenues	27,000	27,000	21,682	(5,318)
<b>Expenditures</b>				
Improvements	30,000	30,000	31,570	(1,570)
Other	12,000	12,000	857	11,143
Total expenditures	42,000	42,000	32,427	9,573
<b>Fund Balance</b> - End of year	<u>\$ 691,064</u>	<u>\$ 691,064</u>	<u>\$ 695,319</u>	<u>\$ 4,255</u>

# City of Gibraltar, Michigan

## Required Supplemental Information Pension System Schedule of Funding Progress June 30, 2004

The schedule of funding progress is as follows (in thousands of dollars):

Actuarial Valuation Date	Actuarial Value of Assets (a)	Actuarial Accrued Liability (AAL) (b)	Unfunded AAL (UAAL) (b-a)	Funded Ratio (Percent) (a/b)	Covered Payroll (c)	UAAL as a Percentage of Covered Payroll
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### General Employees' Retirement System

6/30/98	\$ 685	\$ 738	\$ 53	92.8	\$ 291	18.2
6/30/99	754	870	116	86.7	294	39.5
6/30/00	580	681	101	85.2	281	39.9
6/30/01	668	772	104	86.6	301	46.2
6/30/02	566	734	168	77.1	292	77.7
6/30/03	618	844	226	73.2	352	81.7

### Public Safety Officers' Retirement System

6/30/98	\$ 5,500	\$ 4,400	\$ (1,100)	125.0	\$ 700	-
6/30/99	6,100	4,400	(1,700)	138.6	700	-
6/30/00	6,700	4,700	(2,000)	142.6	700	-
6/30/01	7,100	5,400	(1,700)	131.5	800	-
6/30/02	7,200	5,900	(1,300)	122.0	900	-
6/30/03	7,300	6,000	(1,300)	121.7	800	-

# City of Gibraltar, Michigan

## Required Supplemental Information Pension System Schedule of Employer Contributions June 30, 2004

The schedule of employer contributions is as follows:

### General Employees' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/99	6/30/98	\$ 25,000	100
6/30/00	6/30/99	25,000	100
6/30/01	6/30/00	19,927	125
6/30/02	6/30/01	27,034	130
6/30/03	6/30/02	44,470	79
6/30/04	6/30/03	112,129	100

### Public Safety Officers' Retirement System

Fiscal Year Ended	Actuarial Valuation Date	Annual Required Contribution	Percentage Contributed
6/30/99	6/30/98	\$ -	-
6/30/00	6/30/99	-	-
6/30/01	6/30/00	-	-
6/30/02	6/30/01	-	-
6/30/03	6/30/02	-	-
6/30/04	6/30/03	-	-

The information presented above was determined as part of the actuarial valuations at the dates indicated. Additional information as of June 30, 2004 and 2003, the latest actuarial valuations, for the General Employees and the Police and Fire, respectively, is as follows:

### General Employees' Retirement System

Actuarial cost method	Entry age
Amortization method	Level dollar method
Remaining amortization period (perpetual)	13 years
Asset valuation method	5-year smoothed market
Actuarial assumptions:	
Investment rate of return	6.0%
Projected salary increases	3.5%
Cost of living adjustments	None

### Police and Fire Retirement System

Actuarial cost method	Entry age
Amortization method	Level percent of payroll
Amortization period (perpetual)	12 years
Asset valuation method	4-year smoothed market
Actuarial assumptions:	
Investment rate of return*	7.0%
Projected salary increases*	5.5%-8.5%
*Includes inflation at	5.0%

### **Note - Stewardship, Compliance, and Accountability**

**Budgetary Information** - Annual budgets are adopted for the General Fund and all Special Revenue Funds.

The budget has been prepared in accordance with accounting principles generally accepted in the United States of America, with the following exceptions:

- Operating transfers have been included in “revenue” and “expenditure” categories, rather than “other financing sources (uses).”
- Reimbursements from other funds have been included in revenue, rather than a reduction of expenditures.

Any expenditures that exceed the budget must be approved by City Council through a budget amendment. The Council approves all budget amendments. All annual appropriations lapse at fiscal year end.

The budget process begins in March with the finance director budgeting the personnel and fringe benefits expense for all City employees and providing each department with a budget form to be completed by the department head. When these forms are returned, the finance director then analyzes these amounts and calculates the total budget.

After the final review, the finance director organizes the final proposed budget to deliver to the City Council. The City Charter requires that the City Council adopt a budget by the second meeting in May.

City Council meetings, held in early May, provide all interested citizens an open forum where their concerns can be heard. Upon review, and a subsequent public hearing, the Council adopts the proposed budget by resolution.

After the budget has been adopted, all budget amendments must be approved by the City Council.

**Excess of Expenditures Over Appropriations in Budgeted Funds** - During the year, the City of Gibraltar, Michigan incurred expenditures that were in excess of the amounts budgeted, as follows:

- The General Fund attorney fees were in excess of budget by \$3,541 due to unanticipated legal proceedings.
- The General Fund grant expenditures were in excess of budget by \$50,961 related to a nonmotorized pathway improvement. The expenditure overage was offset by a correlating transfer from other funds in excess of budget.

# **City of Gibraltar, Michigan**

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## **Note to Required Supplemental Information June 30, 2004**

### **Note - Stewardship, Compliance, and Accountability (Continued)**

- The Major Streets Fund expenditures were in excess of budget by \$251,105 related to a street reconstruction project due to an unanticipated early start date of the project.

## **Other Supplemental Information**

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# City of Gibraltar, Michigan

	Special Revenue Funds					
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
<b>Assets</b>						
Cash and investments	\$ 45,470	\$ 17,304	\$ 51,986	\$ 69,266	\$ 14,786	\$ 3,399
Receivables - Net	-	-	-	-	-	-
Accrued interest and dividends	-	275	-	26	-	-
Due from other governmental units	11,271	-	-	-	-	-
Other receivables	-	1,024	29,406	-	-	-
Total assets	<u>\$ 56,741</u>	<u>\$ 18,603</u>	<u>\$ 81,392</u>	<u>\$ 69,292</u>	<u>\$ 14,786</u>	<u>\$ 3,399</u>
<b>Liabilities and Fund Balances</b>						
<b>Liabilities</b>						
Accounts payable	\$ 1,067	\$ 246	\$ -	\$ -	\$ -	\$ -
Due to other funds	1,067	-	11,402	8,946	-	-
Total liabilities	2,134	246	11,402	8,946	-	-
<b>Fund Balances - Unreserved</b>	54,607	18,357	69,990	60,346	14,786	3,399
Total liabilities and fund balances	<u>\$ 56,741</u>	<u>\$ 18,603</u>	<u>\$ 81,392</u>	<u>\$ 69,292</u>	<u>\$ 14,786</u>	<u>\$ 3,399</u>

**Other Supplemental Information  
Combining Balance Sheet  
Nonmajor Governmental Funds  
June 30, 2004**

<u>Debt Service Funds</u>			
			Total Nonmajor Governmental Funds
<u>Road Bond</u>	<u>City Hall Bonds</u>		
\$ 18,039	\$ 6,344	\$	226,594
5,367	-		5,367
-	-		301
-	-		11,271
-	5,386		35,816
<u>\$ 23,406</u>	<u>\$ 11,730</u>	<u>\$</u>	<u>279,349</u>
\$ -	\$ -	\$	1,313
-	-		21,415
-	-		22,728
23,406	11,730		256,621
<u>\$ 23,406</u>	<u>\$ 11,730</u>	<u>\$</u>	<u>279,349</u>

# City of Gibraltar, Michigan

	Special Revenue Funds					
	Local Streets	Cable TV	City Project	Public Safety Severance Reserve	Public Works Severance Reserve	Drug Forfeiture
<b>Revenue</b>						
Property taxes	\$ -	\$ -	\$ -	\$ -	\$ -	\$ -
State sources	66,318	-	-	-	-	-
Cable fees	-	4,112	-	-	-	-
Interest income	192	251	705	798	75	16
Other	-	-	112,295	-	-	750
Total revenue	66,510	4,363	113,000	798	75	766
<b>Expenditures</b>						
Current - Community maintenance and development	32,227	2,629	68,363	-	-	-
Miscellaneous	-	-	-	64,658	-	-
Debt service	-	-	-	-	-	-
Total expenditures	32,227	2,629	68,363	64,658	-	-
<b>Excess of Revenue Over (Under) Expenditures</b>	34,283	1,734	44,637	(63,860)	75	766
<b>Other Financing Sources (Uses)</b>						
Transfers in	36,321	-	-	-	5,000	-
Transfers out	(39,452)	-	(105,000)	-	-	-
Total other financing sources (uses)	(3,131)	-	(105,000)	-	5,000	-
<b>Net Change in Fund Balances</b>	31,152	1,734	(60,363)	(63,860)	5,075	766
<b>Fund Balances - Beginning of year</b>	23,455	16,623	130,353	124,206	9,711	2,633
<b>Fund Balances - End of year</b>	<u>\$ 54,607</u>	<u>\$ 18,357</u>	<u>\$ 69,990</u>	<u>\$ 60,346</u>	<u>\$ 14,786</u>	<u>\$ 3,399</u>

**Other Supplemental Information**  
**Combining Statement of Revenue, Expenditures, and Changes**  
**in Fund Balances - Nonmajor Governmental Funds**  
**Year Ended June 30, 2004**

Debt Service Funds		
Road Bond	City Hall Bonds	Total Nonmajor Governmental Funds
\$ 132,153	\$ 132,186	\$ 264,339
-	-	66,318
-	-	4,112
448	463	2,948
-	-	113,045
132,601	132,649	450,762
-	-	103,219
-	500	65,158
224,218	127,131	351,349
224,218	127,631	519,726
(91,617)	5,018	(68,964)
113,000	-	154,321
-	-	(144,452)
113,000	-	9,869
21,383	5,018	(59,095)
2,023	6,712	315,716
<b>\$ 23,406</b>	<b>\$ 11,730</b>	<b>\$ 256,621</b>

# City of Gibraltar, Michigan

## Other Supplemental Information Combining Statement of Net Assets Pension Trust Funds June 30, 2004

	Pension Trust Funds		
	General Employees' Retirement System	Police and Fire Retirement System	Totals
<b>Assets</b>			
Cash and cash equivalents	\$ 248,801	\$ 1,042,276	\$ 1,291,077
Investments	461,668	5,926,289	6,387,957
Receivables - Accrued interest	306	48,986	49,292
Total assets	<u>710,775</u>	<u>7,017,551</u>	<u>7,728,326</u>
<b>Net Assets</b> - Held in trust for employees' retirement systems	<u><u>\$ 710,775</u></u>	<u><u>\$ 7,017,551</u></u>	<u><u>\$ 7,728,326</u></u>

# City of Gibraltar, Michigan

## Other Supplemental Information Combining Statement of Changes in Net Assets Pension Trust Funds Year Ended June 30, 2004

	General Employees' Retirement System	Police and Fire Retirement System	Totals
<b>Additions</b>			
Investment income:			
Interest and dividends	\$ 1,537	\$ 206,717	\$ 208,254
Net increase in fair value of investments	47,137	514,990	562,127
Net investment income	48,674	721,707	770,381
Contributions:			
Employer	112,169	-	112,169
Employee	17,341	52,939	70,280
Total contributions	129,510	52,939	182,449
Total additions	178,184	774,646	952,830
<b>Deductions</b>			
Benefit payments	6,323	238,716	245,039
Administrative expenses	16,618	26,554	43,172
Total deductions	22,941	265,270	288,211
<b>Net Increase in Net Assets</b>	155,243	509,376	664,619
<b>Net Assets Held in Trust for Pension Benefits</b>			
Beginning of year	555,532	6,508,175	7,063,707
End of year	<u>\$ 710,775</u>	<u>\$ 7,017,551</u>	<u>\$ 7,728,326</u>

# City of Gibraltar, Michigan

## Other Supplemental Information Balance Sheet - Modified Accrual Basis of Accounting Component Unit June 30, 2004

	Downtown Development Authority
<b>Assets</b>	
Cash and investments	\$ 818,740
Restricted assets	2,389,086
Accrued interest receivable	7,204
Total assets	<b>\$ 3,215,030</b>
<b>Liabilities and Fund Balances</b>	
<b>Liabilities</b>	
Accounts payable	\$ 568,389
Due to primary government	29,000
Total liabilities	597,389
<b>Fund Balances</b>	
Reserved for capital projects	2,389,086
Unreserved	228,555
Total fund balances	2,617,641
Total liabilities and fund balances	<b>\$ 3,215,030</b>
<b>Fund Balance of DDA</b>	<b>\$ 2,617,641</b>
Amounts reported for the DDA in the statement of net assets are different because:	
Capital assets used in the DDA are recorded in the statement of net assets	1,465,446
Accrued interest on long-term liabilities is recorded in the statement of net assets	(12,737)
Long-term liabilities are not due and payable in the current period and are recorded in the statement of net assets	(3,566,800)
<b>Net Assets of DDA</b>	<b>\$ 503,550</b>

# City of Gibraltar, Michigan

## Other Supplemental Information Statement of Revenue, Expenditures, and Changes in Fund Balance Modified Accrual Basis of Accounting Component Unit Year Ended June 30, 2004

	Downtown Development Authority
<b>Revenues</b>	
Property taxes	\$ 388,054
Interest and rentals	50,743
Other	<u>6,900</u>
Total revenues	445,697
<b>Expenditures - Current</b>	
Community maintenance and development	40,447
Capital outlay and other	1,494,113
Debt service - Interest	127,370
Debt service - Principal payment	<u>66,800</u>
Total expenditures	<u>1,728,730</u>
<b>Excess of Expenditures Over Revenues</b>	(1,283,033)
<b>Other Financing Uses</b> - Transfers out to primary government	<u>(58,841)</u>
<b>Net Change in Fund Balances</b>	(1,341,874)
<b>Fund Balances</b> - Beginning of year	<u>3,959,515</u>
<b>Fund Balances</b> - End of year	<u><u>\$ 2,617,641</u></u>
<b>Net Change in Fund Balance of DDA</b>	\$ (1,341,874)
Amounts reported for the DDA in the statement of activities are different because:	
Capital outlay expenditures are allocated over their estimated useful lives as depreciation in the statement of activities	1,075,714
Repayment of bond principal is not an expenditure in the statement of activities (where it reduces long-term debt)	66,800
Accrued interest expense on long-term debt is recorded in the statement of activities	<u>(12,737)</u>
<b>Change in Net Assets of DDA</b>	<u><u>\$ (212,097)</u></u>

September 17, 2004

To the Honorable Mayor and  
Members of the City Council  
City of Gibraltar, Michigan  
29450 Munroe Avenue  
Gibraltar, MI 48173

Dear Mayor and Council Members:

We recently completed the audit of the financial statements of the City of Gibraltar, Michigan (the "City") for the year ended June 30, 2004. In addition to the audit report, we offer the following comments for your consideration:

#### **GASB No. 34 - New Financial Statement Format**

Over the last several years, we have discussed the pending implementation of Governmental Accounting Standards Board (GASB) Number 34 with the City. This new accounting standard was adopted this year. It significantly impacts the format of the City's financial statements. The expected benefits of the new model include improved comparability of financial statements between communities, and a better matching of the current year's revenue sources to the full cost of services provided during that year. The information that was previously provided in your financial statements has been retained in the new financial statement format, however, in a slightly different presentation. In addition, the following major items have been added:

- A "management's discussion and analysis" section
- Entity-wide financial statements (balance sheet and operating statement) prepared on a full accrual basis. There are two columns, one for governmental activities and one for enterprise activities.
- Capital assets and their related depreciation are now reported in your governmental activities.
- Infrastructure assets (such as the City's roads) are now also capitalized and depreciated.

#### **State-shared Revenue**

Municipalities in Michigan have and will continue to feel the effects of the slowdown in the State's economy. State-shared revenue received by the City has shrunk and now accounts for just under 14 percent of the City's total General Fund revenue for the fiscal year ended June 30, 2004. Because of slower than anticipated growth in the State's sales tax collections (the sole source of revenue-sharing payments to local units of government) and the State's budget problems, which have resulted in additional appropriation reductions to the revenue-sharing line item in the State's budget, revenue-sharing payments for the last several years have been lower than anticipated.

Although sales tax revenue would support an increase to total state-shared revenue payments, the State's budget situation remains troublesome at best. It is generally acknowledged that the State's budget woes will continue for several more years. As a result, we continue to urge the City to be conservative in its estimation of state-shared revenue as this line item in the State's budget remains vulnerable.

The table below details state-shared revenue receipts over the past five years broken out by statutory and constitutional portions. In addition, it details the total annual revenue decrease as compared to the State's fiscal year 2000.

State Fiscal Year	Statutory	Constitutional	Total	Decrease from 2000
2000	\$ 284,348	\$ 291,282	\$ 575,630	\$ -
2001	284,073	276,700	560,773	14,857
2002	238,797	279,518	518,315	57,315
2003	200,870	284,252	485,122	90,508
2004	154,841	281,164	436,005	139,625

### Property Taxes

As you recall, Proposal A limits the growth in taxable value to the lesser of inflation or 5 percent. The inflation factor for this calculation is published by the State Tax Commission and is as follows:

2005	2.3%	1999	1.6%
2004	2.3%	1998	2.7%
2003	1.5%	1997	2.8%
2002	3.2%	1996	2.8%
2001	3.2%	1995	2.6%
2000	1.9%		

As indicated above, growth in existing property is significantly limited due to Proposal A. This factor should be considered when the City is involved in long-term financial planning.

The Headlee Amendment to the Michigan Constitution limits the amount of taxes that can be levied by the City. In general terms, if growth in the City's existing property tax base exceeds inflation for a particular year, the Headlee Amendment requires the City to "roll back" its property tax rate to inflation. Prior to the passage of Proposal A in 1994, during years when the growth on the City's existing property tax base was less than inflation, the Headlee Amendment allowed the City to "roll up" its property tax rate and recover from years when the property tax rate was "rolled back." However, subsequent to the passage of Proposal A, the City is no longer allowed to "roll up" its property tax rate in years when growth on its existing tax base is less than inflation.

As a result, despite general operating charter mills of 20.0, currently the Headlee limited mills are 15.712 (a reduction of over 21 percent). This equates to a reduction of approximately \$560,000 of property tax revenue in the current year compared to what could have been levied under the original charter authorized mills.

In relation to this limitation of potential mills that can be levied, it was noted during our testing that the City is currently not levying at its full millage capacity as allowed by law. If budget shortfalls occur related to further reduced state-shared revenue or other unanticipated items, the differential between the mills allowed to be levied for operations and the actual levy could serve as a source of additional offsetting revenue. This differential amounted to approximately \$84,000 in forgone property tax revenue in the current year.

### **Segregation of Duties**

Given the relatively limited staffing size at the City, it is difficult to put into place completely effective procedures related to internal accounting controls. The procedures related to the following areas would benefit from a review by the City given that there is a lack of segregation of duties: cash receipts, cash recording, bank reconciliations, and the formulation and posting of manual general journal entries.

### **Bank Accounts**

During the current year, the City changed banking institutions for its main operating accounts. While performing testing during the audit, it came to our attention that the bank accounts previously used by the City at the former bank have not been officially closed. Since there are no funds on deposit with this institution, we encourage the City to officially close the related accounts to prevent them from being used in the City's name.

Also related to the cash accounts, it was noted during testing in the current year that reconciliations appeared to have been prepared timely. There were occasional miscellaneous differences noted on bank reconciliations related to interfund transfers and other miscellaneous items; however, they were immaterial in amount.

### **Retirement Systems**

Related to the police and fire pension system, the current year actuary report strongly suggests that an employer contribution could be required in the near future. This results from the recent past disappointing investment results that most systems have experienced, and the recent retirement of several officers. This contribution would be required to be made by the General Fund. The City should consider this possibility while planning and budgeting for the next few fiscal periods.

Related to the General Employees' Retirement System, the reports prepared in the current year by the actuary, unlike in prior periods, were in the format required by the Governmental Accounting Standards Board.

## **Act 51**

Under Act 51, it is permissible to charge appropriate administrative fees to the Street Funds. Any administrative fees incurred on behalf of the Street Funds that are not charged back to those funds come out of the operations of the General Fund. The limit on the fees that can be charged back to these funds equals 10 percent of the annual receipts of state distributions of Act 51 monies received by the funds. During the 2004 fiscal year, the City charged back administrative fees of only 3 percent of the Act 51 monies received. Going forward, we encourage the City to review related administrative expenditures incurred by the General Fund on behalf of the Street Funds and charge these fees back to the related funds when appropriate.

As mentioned in previous years, under Act 51, the City is required to have cumulative expenditures for nonmotorized improvements exceeding 10 percent of Act 51 funding over the past 10 years. Since 1994, the City has spent only about 1 percent on such expenditures. We encourage the City to make plans to spend the required remaining balance in the near future to avoid funding restrictions.

## **Road Project**

Currently, the City is involved in a sizable project related to the reconstruction of Adams Road. The Street Funds do not have the capacity to fund the entire project with funds currently on hand. Thus, the City has determined that funds will be borrowed from the Land Revolving Fund. As a result, the related expenses to be funded by the Land Revolving Fund have been, and will continue to be, reflected in the Major Streets Fund as an expenditure and a correlating amount owed back to the Land Revolving Fund. Upon completion of the project in the 2005 fiscal year, this most likely will result in a deficit in the Major Streets Fund. If this occurs, the State will require the City to file a deficit elimination plan. We recommend that the City prepare a long-range projection of the Major Streets Fund's activity in anticipation of the need for a deficit reduction plan.

Also, please note that related to this project, under Act 51 the costs of reconstruction related to sidewalks should not be paid for with monies from either of the Street Funds.

## **Project Overview**

In addition to the road project noted above, the municipal complex project will be completed during the 2005 fiscal year. As both projects near completion, we encourage the City administration to review the related contracts and agreements. Retainages, refundable deposits, original budget awards, change orders, payments to date, work descriptions, and maximum guaranteed payments should all be accounted for and verified in an effort to close out the projects without the occurrence of monetary discrepancies.

## **Long-range Planning**

Given the fluctuations in state-shared revenue as well as property taxes, and considering the operational costs of the new municipal complex, accurate long-range planning will be valuable for the City Council in its efforts to make well-informed decisions related to the City's finances. We understand that the City is in the process of updating its existing five-year financial forecast. We would encourage the City to continue to utilize this tool.

## **Electronic Transfers**

The City currently utilizes electronic wire transfers to make some of its disbursements (related to closing accounts, remitting tax collections to other taxing authorities, and making debt payments for the most part). Authorization to utilize this form of disbursement was granted through a previous council resolution. However, it was noted during our testing that the City has not formulated a written set of procedures related to wire transfers. We encourage the City to formulate and implement a written set of procedures related to strengthening internal controls related to this activity.

## **Computer Security**

It was noted during our testing that not all employee computers are password protected for all applications. We suggest that the City review its policy and procedures related to employee authorization to access sensitive software applications.

On a broader scope, as organizations have become more reliant on computer technology to deliver core business processes, it is increasingly apparent that attention needs to be given to the security of computer systems. While the private sector has been forced to devote significant resources to this area for a couple of years now, organizations in the public sector are beginning to see the need for similar attention. Items for consideration include the ability of employees to access or manipulate data or programs inappropriately, firewalls for Internet access points, and physical security/disaster recovery plans.

To the Honorable Mayor and  
Members of the City Council  
City of Gibraltar, Michigan

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September 17, 2004

The City's data assets are such that their loss or impaired usage would have devastating consequences. As a result, we strongly recommend that the City assess its information systems and network environments and develop strategies to ensure that risks associated with down time, hacker intrusions, and virus attacks are minimized in a secured environment. We believe it is prudent to assess your risk and implement security improvements to avoid the negative implications. Plante & Moran has developed a computer security review and penetration testing approach that is tailored for governments. We can assist the City in implementing the necessary security and networking technology to achieve the level of security the City requires.

### **Reportable Condition**

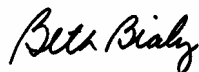
Reportable conditions are significant deficiencies in the design or operation of the internal controls structure that have come to our attention and, in our judgment, could adversely affect the City's ability to record, process, summarize, and report financial data consistent with the assertions of management in the financial statements.

In planning and performing our audit of the financial statements of the City of Gibraltar for the year ended June 30, 2004, we considered the City's internal controls in order to determine our auditing procedures for the purpose of expressing our opinion on the financial statements and not to provide assurance on the internal controls. The purpose of an audit is to report on the financial statements, rather than provide assurance on the internal control structure; however, we would consider the items mentioned under "segregation of duties" section of this letter to be a reportable condition under standards established by the American Institute of Certified Public Accountants.

We would like to thank the City staff again this year for the cooperation and assistance they provided during the audit. If you have any questions, or would like to discuss these items further, please feel free to contact us at your convenience.

Yours truly,

**Plante & Moran, PLLC**



Beth A. Bialy



Blake M. Roe